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FARM MANAGEMENT HANDBOOK

COMMODITY, CROP INSURANCE AND CONSERVATION PROGRAMS

Wallace Barr, Emeritus
Extension Economist
Department of Agricultural Economics
and Rural Sociology

OSU Cooperative Extension Service
The Ohio State University

The Food and Agriculture Act of 1977 which serves as the primary launching pad for future policy is the latest installment in a century and a half evolution of public policy for agriculture and food. In successive eras from the early nineteenth century, policy has focused on the transfer of the public domain into private farm ownership, establishment of institutions of public agrcultural research and education,farm credit agencies, conservation assistance, marketing services, farm prices and incomes, production control, food aid to needy people at home and abroad, food quality and price, grain reserves, the rural community, environmental quality, energy use, and the future of the family farm.

The specific evolutionary policy and program roots of the 1977 Act began with a series of public price and income policies inaugurated by compulsory acreage controls and high price supports of the 1930's, soil bank and surplus product disposal launched in the 1950's, voluntary land retirement coupled with lowered price supports and deficiency payments initiated in the 1960's, food stamp program of 1964, and the explicit recognition of separate price and income support mechanisms introduced in the comprehensive Agricultural and Consumer Protection Act of 1973.

PRIMARY PROVISIONS OF THE 1971 ACT

1. Price and Income Supports: The 1977 Act included price-support loans, target prices and deficiency payments, production control provisions, export embargo provisions, farm storage, grazing and hay programs, and disaster payments. Commodities affected were wheat, corn, and other feed grains, soybeans, cotton, rice, peanuts, dairy products, and wool and mohair. Only tobacco and sugar remain with other policy.

   New features introduced in the 1977 Act included substituting a current planting basis for the historical wheat, feed grain and cotton allotments and bases and using cost of production to set and then adjust target price levels.

   At this writing, the 1981 farm program legislation is awaiting action in Congress. It appears that the 1981 legislation will not include provisions for disaster payments whether from prevented plantings or from low yields due to adverse weather. Farmers will need to bear these risks alone or will need to carry crop insurance. The crop insurance program will be discussed later in the paper. Dairy price supports will be lowered to a level that will be market clearing.

2. Grain Reserve: For the first time, public policy in the 1977 legislation mandated, when supplies are abundant, a minimum national farmer-held reserve of 300-700 million bushels of wheat. The size of the reserves for feed grain were left optional. By 1979, the reserve had grown to over 400 million bushels of wheat and nearly a billion bushels of feed grains. The reserve offers increased food and export supply security, more price stability, but less chance for shortage induced windfall gains to grain owners.

   The proposed changes in the grain program will be discussed later in this paper.

3. Food Assistance: Both domestic and foreign food aid programs are encompassed. The Food Stamp Program, first tried in 1939, reinstated in 1964, and now reaching 9 percent of our citizens, was continued in the 1977 Act. The 1977 Act increased benefits relatively to

the lowest income recipients and a major change was to eliminate any cash purchase requirement.

The 1981 legislation is currently designed to reduce eligibility levels, thus reducing participation and budget costs about 25 percent. The Supplemental Food for Women, Infants and Children program (WIC) has expanded rapidly since it initiation in 1974, and may be continued. School feeding programs can be expected to be reduced. The Head Start program is to be retained.

The P.L. 480 program, a foreign food aid program launched in 1954, is to be continued. The program offers emergency food donations to countries experiencing disaster, sales on easy credit terms, and local currency payments for designated self-help efforts. Much less quantity of commodities is being distributed currently to the roughly eighty recipient countries than earlier years. The program is expected to continue with major emphasis in sales on a long term credit basis.

4. Research and Extension: Major agricultural research, extension and teaching programs were brought under the umbrella of the 1977 Act. USDA is identified more prominently as the lead agency for channeling federal support of the food and agricultural sciences, with competitive grant funding and priority areas mandated. These general policy directions seem likely to be continued.

5. Additional items: Other commodities and programs were addressed in the 1977 Act. A partial list includes the beekeeper and dairy cattle indemnity program, filbert marketing, emergency feed program, certain Farmers Home Administration functions, rural development, environmental enhancement, conservation, and funding for grain inspection.

THE 1981 FARM BILL

The legislation for the 1982-85 crops is a modification of the 1977 bill that retains the reserve program as a focal point. However, the management strategy represents a significant change from the 1977-81 program.

Figure 1 illustrates the operation of the 1980 program for corn and the proposal for the 1982 crop. A single band is to be utilized for program management for corn and wheat, thus eliminating the call price. The trigger price (formerly release-call) is designed to encourage the flow of farmer held reserve grain back on the market via the use of two economic disincentive measures. Once the trigger price is reached the storage payment ($ .26 per bushel in 1980) will stop and farmers will have the choice to remain in the reserve. If they choose to remain in the reserve, they will be charged the full market rate of interest.

The target price is to be eliminated and a recommended quantitative limit is to be placed on the reserve. Once the upper limit for the reserve is reached, production controls will be implemented. Land will be taken out of production via the use of a paid diversion program.

The size of the reserve will be restricted to 12 to 15 percent of annual U.S. feed grain output and 18 to 20 percent of annual wheat production. These percentages convert to about 500 million bushels of wheat in the farmer held reserve and 1,200 million bushels of feed grains including about 1,000 million bushels of corn.

The two tiered loan system will be continued as illustrated in Figure 1. The 1980 entry level loan rate shown as $2.25 reflects costs, excluding land and other supply demand factors. Producers that do not want to participate in the reserve program due to lack of storage can use this loan. Thus the level can vary from year to year. The farmer held reserve loan level rate can be used to encourage corn to move into the reserve program. Loan rates will be continued well below market levels. These rules are designed to protect the farm sector from very low farm prices, to maintain our competitive position in world markets and to protect the budget.

Storage payments for corn and wheat will range from 20 to 30 cents per bushel. Interest payments will be forgiven in the first year of the reserve program. The Secretary of Agriculture has the authority to waive interest payments in the second and third years.

FIGURE 1: CORN PROGRAM COMPARISON

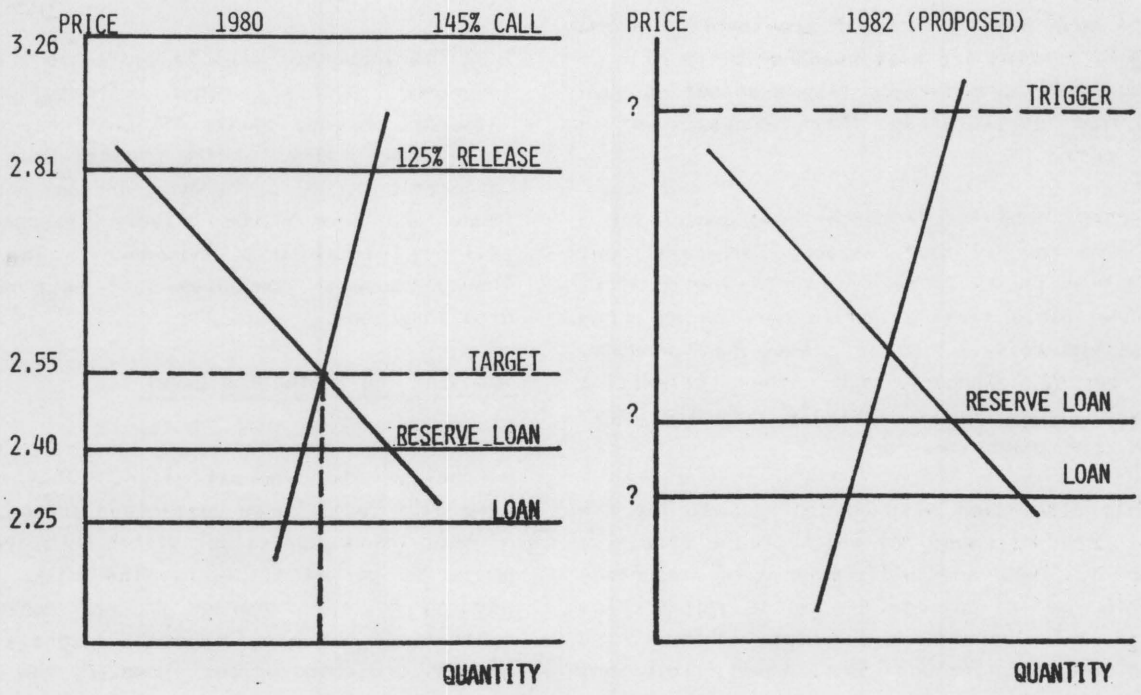
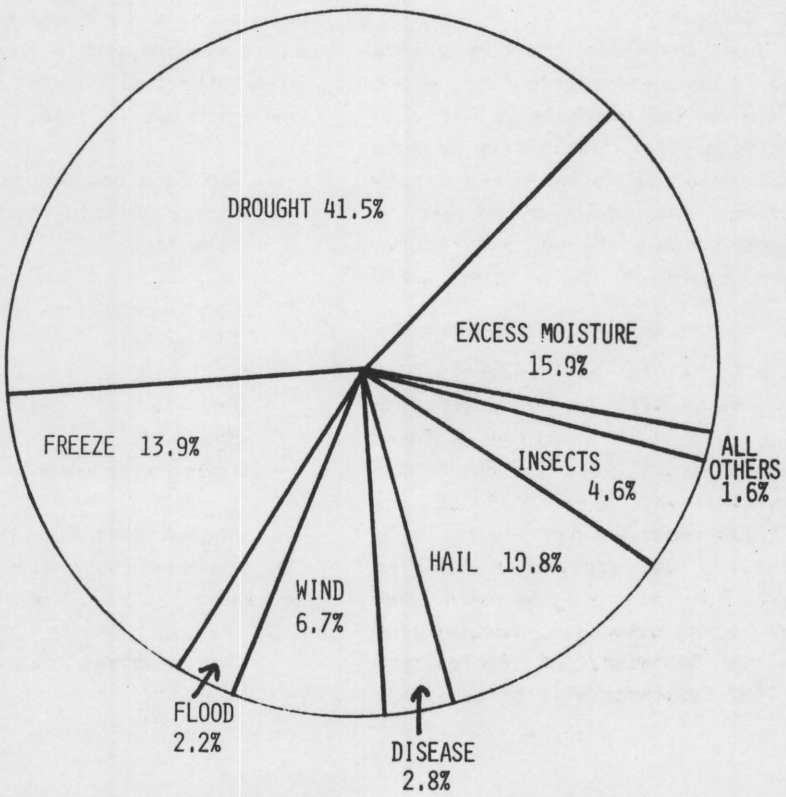


FIGURE 2: PERCENT OF INDEMNITIES PAID
BY CAUSE OF LOSS, 1939-78
(ALL CROPS)



FEDERAL CROP INSURANCE

The same high costs that are pushing up the expense of farming are also pushing up the risk of farming. Now, more farmers than ever before have the option of insuring their crops. . .at a reduced cost.

Federal crop insurance has been around for a long time - roughly four decades. But until now, it wasn't available in many parts of the country, and non-eligible farmers had to rely on an array of disaster relief loan programs when drought, hail, pests, disease, and other calamities destroyed their crops. Private companies have offered crop insurance.

This discussion will be confined to the new Federal Crop Insurance Act which became effective October 1, 1980 and will make crop insurance available on a nationwide basis and provide coverage on virtually all crops. The crops covered in Ohio include corn, wheat, soybeans, oats, barley, grapes, tobacco, tomatoes and sugar beets. The new larger insurance program is designed to protect producer's working capital when disaster payments are phased out after the 1981 crops are harvested. Subsidized crop insurance will then replace the complex system of disaster payments and emergency loans that has built up over the years.

How the Program Has Changed

The Federal Crop Insurance Program offers more protection and is more affordable than before with higher yield and dollar guarantees. It also provides substantially greater flexibility because producers can tailor coverage to their own financial situation, change the policy from year to year as risk management needs change, and receive insurance guarantees based on their farms yield history.

If a producer opts to buy Federal Crop Insurance, the Government will foot the bill for 30 percent of the premium price covering up to 65 percent of the farm's established yields. When the 1980 Act was written, only 1626 of the Nation's roughly 3,000 counties had federal crop insurance. Originally, 250 additional counties were to be brought into the program each year until all counties were covered. However, on April 27, 1981, the Secretary of Agriculture announced that by 1982 insurance will be available in all counties where the crops eligible for disaster payments are grown.

The insurance will be available from private insurance agents, banks, Production Credit Associations, and county ASCS offices, as well as from local offices of the Federal Crop Insurance Corporation (FCIC). In Ohio, Indiana and Michigan there are over 1,000 private insurance agents selling Federal Crop Insurance. The FCIC reinsures several companies that sell multi-peril crop insurance.

Choosing the Protection Level

Farmers can choose to cover 50, 65, or 75 percent of their normal yield. They can select from a range of three guaranteed prices, with the highest insured price set within 90 percent of the projected market price for the crop. Producers needing maximum coverage to pay debts or meet other needs can buy 75 percent coverage at the 90 percent projected price. However, the 30 percent discount off the premium cost covers only the first 65 percent of the guaranteed yield. Producers needing less protection can select smaller amounts of coverage that cost only a fraction of the higher protection options.

How the Premium Works

Premium payments and other elements of the program will vary among counties and crops. But as an example, let's look at the protection a farm in Hypothetical County, Ohio could get on corn and soybean crops in 1981.

> The farm had 200 acres of corn and 100 acres of soybeans to insure. We'll assume that for this farm:
>
> the average corn yield (from FCIC records) is 110 bushels;
>
> The farmer chose the 75 percent yield guarantee at a price of $2.70 a bushel, paying a premium of $9.90 an acre.

Now suppose that for the 100 acres of soybeans, the producer chose the same 75 percent coverage, and that:

> the county's average soybean yield is 30 bushels;

the price guarantee chosen is $7.00 a bushel, for which a premium of $8.50 an acre was paid.

Now let's assume that severe drought, flood or other disaster reduces the 1981 corn yield to 20 bushels per acre and the soybean yield to 10 bushels. Payment for the damaged corn crop is calculated as follows:

1) 75 percent of the 110 bushel yield = 82.5 bushel guarantee

2) 82.5 bushels (guarantee) - 20 bushels (production) = 62.5 bushel loss

3) 62.5 bushels x $2.70 = $168.75 per acre

4) $168.75 x 200 acres = $33,750 payment

Payment for the soybean damage is determined by:

1) 75 percent of the 30 bushel yield = 22.50 bushels

2) 22.5 bushels (guarantee) - 10 bushels (production) = 12.50 bushel loss

3) 12.5 bushels x $7.00 = $87.50 per acre

4) $87.50 x 100 acres = $8,750 payment

The producer would receive a total of $42,500 for the two damaged crops. The premiums were $9.90 an acre for corn and $8.50 an acre for soybeans. Therefore, the farmer paid $2,830 in premiums and received a net benefit of $39,670.

Premiums

The relationship between any insurance benefit and the premium cost depends upon how severe the loss is and the level of protection chosen. Insured farmers who suffer no losses and thereby reap no benefits must still bear the premium cost out of cash receipts. This is a management decision each producer must make based on his own financial situation. Keep in mind that the premium payments are a tax-deductible business expense which in turn lowers the cost of insurance protection.

The table below summarizes the crop coverage and price options with premiums that a farmer in Hypothetical County had in 1981.

EXAMPLE PREMIUMS, HYPOTHETICAL COUNTY

	Corn Price Options		
Percent Crop Coverage	$1.70	$2.00	$2.70
50*	2.50	2.95	3.90
65*	4.00	4.70	6.30
75	6.20	7.30	9.90

	Soybean Price Options		
Percent Crop Coverage	$4.50	$6.00	$7.00
50*	2.25	3.00	3.50
65*	3.50	4.60	5.40
75*	5.40	7.20	8.50

*Premiums with 30 percent subsidy

Summary

A wide variety of disasters can cause crop losses to farmers. The incidence of these losses over a long period of time is shown in Figure 2. Under the new program, there will be one straightforward system for everyone. Premium rates will be set based on the potential risk of crop loss in each area. The expanded protection will serve farmers' financial needs by helping to ensure cash flow stability which:

-- will make it easier to obtain and pay loans, especially for those producers who don't have a big capital reserve

-- will secure forward contracts with insurance to guarantee funds for meeting the contract.

The amount of insurance that's right for each producer will depend on cash flow needs. Insurance agents can help producers choose a protection plan. But finally, each farm operator must determine the level of protection that he needs.

AGRICULTURAL CONSERVATION PROGRAM

The Agricultural Conservation Program (ACP) is the means by which the government, thus society shares with the farmer the cost of carrying out needed soil and water conservation practices. The goal of ACP is to assist in identifying problems and helping farmers to solve critical soil erosion, water quality, woodland, wildlife and pollution abatement problems on their farms.

Often the solutions to agriculture conservation problems cost more than farmers and ranchers can economically justify. Many conservation practices which benefit a community bring little or no return to land-owners, or benefit them only after private interests' are served. The joint cost sharing effort of farmers and the government, through ACP, is designed to restore, protect, and preserve the environment and to improve the quality of life.

ACP is administered through local offices of the Agricultural Stabilization and Conservation Service (ASCS) of the USDA. A locally elected committee of farmers works with people in the community to assess local conservation problems and determine which measures should be offered to county landowners. Technical assistance is provided by the USDA's Soil Conservation Service and Forest Service.

The regular conservation practices appearing for use in Ohio are classified under erosion control, water management, pollution, woodland preservation and wildlife preservation. A specific county may offer only a portion of the practices in each of the categories.

Under the erosion control measures we find assistance for no-till systems, reduced tillage systems, contour farming, strip cropping systems, terrace systems, diversions, windbreak establishment or restoration, and permanent vegetative cover establishment.

There are two water management practices identified as spring development on grazing land and water impoundment reservoirs or ponds. Pollution abatement practices include sediment retention, erosion or water control structures, stream protection, sod waterways, and animal waste control facilities.

In woodland preservation efforts we find practices developed as forest tree plantations and forest tree stand improvement. The wildlife conservation program efforts include permanent wildlife habitat and shallow water areas for wildlife. In certain cases other local special needs conservation practices are authorized by the county ASCS committee.

SUMMARY

Farmers with problems in solving erosion, water management, pollution, or other conservation practices might explore the possibilities of receiving engineering and other technical assistance through the ACP program.

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